



Montana Budget &
Policy Center

Policy Brief
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Recovery and Reinvestment in Montana

The \$787 billion American Recovery and Reinvestment Act of 2009 (hereinafter "federal stimulus act") provides extensive relief to states, local governments, and individuals suffering from the current economic downturn. Estimates for total relief provided to Montana and its citizens range from \$636 million to as much as \$1.73 billion.¹ This brief does not attempt to provide a comprehensive list of funding provided under the act, but rather provides:

1. General principles to consider when allocating the funds, and
2. Information on the core components of the act with the greatest potential for providing relief to low- and moderate-income Montanans.²

I. Principles for Allocating Federal Stimulus Funds

Montana Should Honor the Purpose of the American Recovery and Reinvestment Act.

The goals of the federal stimulus act, as stated in the legislation, are:

1. To preserve and create jobs and promote economic recovery.
2. To assist those most impacted by the recession.
3. To provide investments needed to increase economic efficiency by spurring technological advances in science and health.
4. To invest in transportation, environmental protection, and other infrastructure that will provide long-term economic benefits.
5. To stabilize State and local government budgets, in order to minimize and avoid reductions in essential services and counterproductive state and local tax increases.³

The Montana Budget and Policy Center believes that these goals should guide the Legislature in the allocation of both the direct funding from the federal stimulus act *and also* any resulting savings generated in the general fund. For example, the increase in the federal match rate for Medicaid (discussed in more detail below) will decrease the amount of state dollars needed to fund Medicaid services in the state. The resulting money freed up in the general fund should be used in a way that honors the goals articulated in the federal stimulus act.

¹ Center for American Progress, "The Nationwide Allocation of Recovery Funding: An Interactive Map on the Final House-Senate Compromise," February 13, 2009, at http://www.americanprogress.org/issues/2009/02/compromise_map.html.

² For a comprehensive list of funding with the potential to impact Montana, see Legislative Fiscal Division, Federal Economic Stimulus by Subcommittee at <http://leg.mt.gov/css/fiscal/default.asp>.

³ H.R. 1, "The American Recovery and Reinvestment Act of 2009," pp. 1-2, at http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=111_cong_bills&docid=f:h1enr.pdf (emphasis added).

Montana Should Use Federal Stimulus Funding to Prevent Cuts in Key Services

Representatives on both sides of the aisle have suggested that federal stimulus funding should only be used to fund "one-time-only" expenditures and should not be used to fund ongoing programs or services.⁴ Such comments threaten to undermine core goals of the federal stimulus act, namely assisting those individuals most impacted by the recession and avoiding reductions in essential services.

Montana revenue, like all states' revenue, is expected to decline rapidly over the next biennium.⁵ At the same time, demand for government services is likely to increase. The federal funding is *intended* to prevent cuts in key services during this time of economic downturn. In other words, when the national and state economy rebound, Montana revenues will also rebound and demand for government programs will likely decrease. The federal stimulus funding should be used to avoid cuts to (and provide adequate present law adjustments for⁶) ongoing programs and services during the interim.

"In normal economic times, government should avoid paying for ongoing spending needs (or permanently cutting taxes) based on a one-time revenue windfall. But these are not normal times. State revenues have plummeted as a result of the recession; the federal stimulus funds are intended to fill in for a portion of the missing revenues, thereby preventing deep budget cuts that would further drag down the state economy."

- Center on Budget and Policy Priorities,
"If States Fail to Use Stimulus Funds as
Intended, Efforts to Strengthen Economy
Could be Undercut."

Preventing cuts in government services during this downturn is important for at least two reasons:

1. Individuals and families struggling to make ends meet during the recession will need to rely more heavily on government programs and services. Therefore, even if eligibility levels stay the same, Montana can expect to see an increase in demand for government programs such as Unemployment Insurance, Temporary Assistance for Needy Families, and Children's Health Insurance. If government funding for these programs does not grow to meet increased demand for the programs, Montana individuals and families will find government services lacking during their time of greatest need.
2. Cuts in government services harm the economy and could extend the recession. One of the basic tenets of economic policy is that money circulating through the economy – buying goods, paying salaries, generating jobs – is needed to move out of a recession. This is true whether the money is from a big corporation, a small mom-and-pop operation or state and local governments. Governments pay salaries, buy goods and services, and generate jobs, which can be particularly important during a recession, when individuals and businesses are spending and investing less in the economy. Cuts in government spending- including increased vacancy savings- would reduce overall demand for goods and services and further weaken the economy.

⁴ Mike Dennison, "Stimulus Muddies Budget Picture," Helena Independent Record, March 1, 2009, at http://helenair.com/articles/2009/03/02/legi/60st_090301_stimulus.txt.

⁵ Revenue estimates for Montana were reduced by \$511 million by the Revenue and Transportation Interim Committee in November 2008, and further reduced by \$252 million by the House Taxation Committee in February 2009.

⁶ The Legislative Fiscal Division has raised concerns about the ability to fund present law services under the Governor's 2011 proposed budget. See *Legislative Budget Analysis 2011 Biennium, Vol. 1 – Statewide Perspectives*, January 2009, pp. 13 – 14.

If the economy and, as a result, Montana revenue have not rebounded by the next legislative session and additional federal stimulus is not available at that time, the Montana Legislature may be forced to make difficult cuts in spending. Those cuts should not be made prematurely.

Federal Stimulus Funding should not be Used to Fund an Ending Fund Balance

In some cases, Montana may be able to replace general fund dollars with federal stimulus funding. General fund dollars freed up by the federal stimulus funding should be spent on programs, services, and infrastructure that will stimulate the economy and assist struggling families. Neither the federal stimulus funds nor the "saved" general funds should be set aside as an ending fund balance. Doing so would undermine the intent of the federal stimulus act and fail to strengthen the Montana economy.

II. Information on Core Components of the Federal Stimulus Act

Fiscal Stabilization to the States

The federal stimulus act includes a total of \$53.6 billion in fiscal relief for state and local governments. The fiscal relief is separated into two different block grants, one to help prevent cuts to K-12 and higher education (82% of the federal stabilization fund) and another allowing states flexibility to avoid cuts to other key services (18%). Under the state stabilization fund, Montana would receive approximately \$121.6 million from the education block grant and \$27.1 million from the flexible block grant, for a total of \$148.7 million in fiscal stabilization. Both block grants will be available immediately and must be used within 2 years of receipt of the funds. In addition to the block grants, other funds will be available through competitive grants and directly from federal departments.

Education Block Grant

The education block grant funding must be used to:

1. Restore funding to local schools for primary and secondary education to the greater of FY08 or FY09 levels or to existing state formula levels, whichever is higher, for fiscal years 2009, 2010, and 2011.
2. Restore state funding for higher education to the greater of FY08 or FY09 levels, whichever is higher.
3. Allocate any remaining funds to local schools based on the Federal Title I formula. Federal Title I funding is distributed according to the number and proportion of children in a school who are living in poverty.

If funds are insufficient to restore funding to K-12 and higher education, the state must allocate between the two in proportion to their shortfalls. In order to be eligible for the education block grant, states must maintain education funding levels that are at least as high as FY06 funding.

Flexible Block Grant

The flexible block grant can be used to avoid cuts to education or other basic state services such as public safety and law enforcement, services for the elderly or disabled. It may also be used for school repair or modernization.

Education Incentive Grants

In addition, the federal stimulus act includes \$5 billion in education incentive grants which states can apply for based on the progress made on initiatives in the state, such as improving the distribution of teachers between high-poverty and low-poverty schools. One-half of any funds received in education incentive grants must be passed through to local school districts.

Other Education Relief

The federal stimulus bill provides additional funding to states for various specific education programs, to be distributed by the U.S. Department of Education. The bulk of the additional funding for K-12 education is in the form of increases to:

- Title I: Title I grants provide supplemental education funding, especially in high-poverty areas, for programs that provide extra academic support to help raise student achievement.
- IDEA: The Individuals with Disabilities Education Act (IDEA) grants provide funding to assist states and school districts with the costs of special education.

The following table provides estimates from the Congressional Research Service for additional funding under the federal stimulus act for K-12 education in Montana.⁷

Description	Technical Discription	Estimated Additional Amount to MT FY2009
Title I- Education for the Disadvantaged	ESEA, Title I-A Grants to LEAs (Targeted, EFIG, and School Improvement)	\$44,013,000
Education Technology	ESEA, Title II-D	\$3,145,000
Education for Homeless Children and Youth	McKinney-Vento	\$224,000
Individuals with Disability Act- Early Intervention for Infants & Toddlers	IDEA Part C State Grants	\$1,764,000
Individuals with Disability Act - Grants to States	IDEA, Part B (sec. 611)	\$36,708,000
Total		\$85,854,000

⁷ Congressional Research Service, "Estimated grants to states for education programs under the conference agreement to H.R. 1," February 13, 2009, at <http://edlabor.house.gov/documents/111/pdf/publications/ARRA-estimatedstateeducationfunding-20090213.pdf>.

Higher Education

The federal stimulus act also includes increased funding for higher education beyond that which is included in the education block grant, but the available funds either go directly to students (Pell Grants) or to the universities. The act:

- Increases the maximum Pell Grant by \$500 to \$5,350 for 2009-2010 and to \$5,550 for 2010-2011 (distributed directly to students/campuses);
- Provides \$200 million for work-study programs for an additional 133,000 students nationally (distributed directly to campuses).

Medicaid Assistance

The federal stimulus act includes \$87 billion in assistance to states in the form of an increased share in Medicaid expenditures paid for by the federal government for the time period beginning October 1, 2008 through December 31, 2010. Montana will receive an estimated \$180 million of this Medicaid assistance, or roughly \$60 million for FY '09, \$80 million for FY '10, and \$40 million for FY '11.⁸

Key Terms

The **FMAP rate** is the "federal medical assistance percentage" rate. The rate determines the percentage of Medicaid expenditures in each state paid for by the federal government.

The federal Medicaid assistance is made up of 3 distinct streams of funding:

1. The federal stimulus bill contains a "hold harmless" provision for states that would have experienced a reduction in their FMAP rates during 2009, 2010, or 2011. The provision keeps any state from having its FMAP rate reduced during this period. Montana had an FMAP rate of 68.53 in 2008, which was reduced to 68.04 for 2009. Under the hold harmless provision, Montana's FMAP rate will remain at 68.53.
2. All states, including Montana, will receive a 6.2 percentage point increase in their FMAP rate after the hold harmless provision is applied. Montana's current adjusted FMAP rate is 68.53 and will increase to 74.55 under the federal stimulus act. In other words, for every \$25.45 that Montana spends on Medicaid, the federal government will match with \$74.55.
3. Thirty-five percent of the Medicaid funding in the stimulus bill is directed to those states experiencing the worst economic conditions as measured by the biggest increase in unemployment rates. Depending on Montana's increase in unemployment, the state could get a 5.5%, 8.5%, or 11.5% further reduction in the share of Medicaid costs paid by the state. For the purposes of measuring increases in unemployment, a base period is established for each state. The base period is the lowest average monthly unemployment rate for any three-month period since January 1, 2006. For each quarter in which the state sees an increase in unemployment of 1.5 to 2.5 percentage points above the base period, the state's share of Medicaid costs will be reduced by 5.5% (tier 1). If unemployment increases between 2.5 and 3.5 percentage points, the state's share will be reduced by 8.5% (tier 2), and if unemployment increases over 3.5 percentage points, the state's share will be reduced by 11.5% (tier 3). The change in unemployment rate and resultant change in funding will be evaluated each quarter, but no state will see a reduction of federal

⁸ Center on Budget and Policy Priorities calculations based on Government Accountability Office estimates. Center on Budget and Policy Priorities, "Recovery Act Provides Much-Needed, Targeted Medicaid Assistance to the States," February 13, 2009, at <http://www.cbpp.org/2-13-09sfp.pdf>.

funding prior to July 1, 2010. The Government Accountability Office estimates that Montana will fall in the first tier until the third quarter of 2009, when the state will fall into the 2nd tier.⁹

The FMAP increases will apply to Medicaid, Title IV-E foster care and adoption assistance but not to Medicaid Disproportionate Share Hospital payments, CHIP, or other programs that use a federal matching rate based on FMAP.

In order to qualify for any increased Medicaid funding under federal stimulus, Montana must not restrict Medicaid eligibility levels below their July 1, 2008 levels. This includes eligibility restrictions that make it more difficult for recipients to meet procedural requirements for enrollment or renewal of benefits.

Limits to Medicaid Stimulus

The FMAP increases will not be available for payments made to individuals covered by eligibility expansions occurring after July 1, 2008. Most significantly, they will not apply to eligibility expansions under the Healthy Montana Kids Plan Initiative.¹⁰ However, general fund savings resulting from the increased FMAP may be used to fund expansions.

Unemployment Modernization

The federal stimulus act adopted key provisions of the proposed Unemployment Insurance Modernization Act (UIMA), bi-partisan federal legislation that provides substantial financial incentives for the states (\$7 billion) to close the major gaps in the unemployment program that deny benefits to large numbers of hard-working families. *Montana will need to make legislative changes to its unemployment insurance laws in order to maximize this federal stimulus.* In addition, the measure provides \$400 million in necessary funding for state agencies to better serve the record numbers of workers now applying for unemployment benefits and navigating today's challenging job market.

A state qualifies for one-third of its UIMA funding if it has in place a policy called the "alternative base period," which counts a worker's most recent earnings when those earnings are needed for her to qualify for benefits. Nationally, over 40% of workers who currently fail to qualify for benefits because of insufficient earnings will end up collecting benefits with the help of the alternative base period.

To qualify for the remaining two-thirds of the UIMA incentive funding, the states have the option of providing benefits to workers in at least two of the following four situations: 1) part-time workers who are denied state benefits because they are required to seek full-time work; 2) individuals who leave

⁹ Government Accountability Office, Memo to Chairman Baucus, Senate Finance and Claims Committee, "Estimated Temporary Medicaid Funding Allocations Related to Section 5001 of the American Recovery and Reinvestment Act" at <http://www.gao.gov/new.items/d09364r.pdf>.

¹⁰ Center on Budget and Policy Priorities, "Recovery Act Provides Much-Needed, Targeted Medicaid Assistance to the States." ("The FMAP increase would generally apply to all Medicaid costs, except for Disproportionate Share Hospital (DSH) payments made to hospitals that disproportionately serve low-income patients and Medicaid beneficiaries, and payments attributable to individuals newly covered by income eligibility expansions that were not already in place on July 1, 2008. The increase would also not apply to non-Medicaid program costs like SCHIP whose matching rates are based on the FMAP, with the exception of Title IV-E costs. Only the hold harmless and the base increase would apply to Title IV-E costs; the increase related to unemployment would not apply to such costs.")

work for compelling family reasons, including domestic violence; 3) workers with dependent family members who qualify for state benefits but whose benefits should be increased to help care for their dependents; or 4) permanently laid off workers who require extra unemployment benefits to participate in training.

Montana needs to adopt the alternative base period in order to get the first 1/3 of UIMA funding. Montana needs to adopt two additional reforms in order to qualify for the remaining funding.

If those reforms are adopted, the National Employment Law Project estimates that Montana will receive the following funds for Unemployment Insurance Modernization¹¹:

	Estimated Amount
One-third UIMA Incentive Payment for the adoption of the Alternative Base Period	\$5,913,000
Two-thirds UIMA Incentive Payment for adopting two additional modernizations	\$11,826,000
Total maximum share of \$7 billion UIMA distribution	\$17,739,000
UIMA Administrative Allocation	\$1,292,000
Total	\$19,031,000

Other Benefits to Unemployment Insurance Recipients (without Impact to State Budget)

The federal stimulus act also includes:

- A \$25 per week increase in unemployment benefits. The National Employment Law Center estimates that 52,906 Montanans will benefit from the weekly increase during calendar year 2009 with approximately \$26.07 million flowing to unemployed Montanans.
- A continuation of the Emergency Unemployment Compensation Program (previously scheduled to expire in March 2009) through December 2009. An estimated 9,703 Montanans will benefit from the extension of the emergency benefits, with additional benefits paid in Montana totaling \$49.18 million.¹²
- Suspension of taxation on the first \$2400 of unemployment insurance benefits.
- Extension of COBRA benefits for unemployed workers for an additional 9 months with subsidies for 65% of the costs of COBRA coverage.

Training and Employment Services

The federal stimulus act provides \$3.95 billion in additional funding for Workforce and Investment Act programs providing local job training and employment services for dislocated workers and youth. \$2.95 billion of the funding will be distributed through the standard WIA grant formulas. The additional funding will be used for youth programs, competitive grants for worker training and placement in high growth industries, and the dislocated workers assistance and national reserve. The

¹¹ National Employment Law Center, "The Unemployment Insurance Modernization Act: Filling the Gaps in the Unemployment Safety Net while Stimulating the Economy," November 2008, at http://nelp.3cdn.net/be99b1d64d4a1110dc_cgm6b9tpk.pdf.

¹² National Employment Law Center, "American Recovery and Reinvestment Act 2009: Estimates of Jobless Workers Benefiting from Selected Unemployment Insurance Provisions," February 13, 2009, at <http://www.nelp.org/page/-/UI/RecoveryPlanEstimates.pdf>

Legislative Fiscal Division estimates that Montana will receive \$8.8 million in the additional Workforce Investment Act funding.

Funding for Increased Temporary Assistance for Needy Families (TANF) Caseloads

The federal stimulus act also creates a TANF Emergency Contingency Fund for fiscal years 2009 and 2010 which provides Montana and other states with additional funding in the form of an 80% federal match for increases in TANF expenditures in any of the following three areas:

- Basic assistance,
- Subsidized employment programs, or
- Programs providing short-term, non-recurrent aid.

Increases in expenditures are measured relative to a base year, either 2007 or 2008, whichever has the lower caseload (for the basic assistance category) or lower expenditures (for the other two categories). The base year can be different for each category of spending. Montana's base year for increases in basic assistance will be fiscal year 2008 because the state had lower caseloads in 2008 than 2007. Therefore, to receive the 80% federal match for increased spending in basic assistance, Montana must demonstrate an increase in caseload for the quarter of spending relative to the corresponding quarter of 2008. Increased expenditures, but *not* increased caseloads, are a requirement for the federal match in the other two program areas.

States can meet their 20% match by either increasing spending or by cutting spending in other TANF-related funding, such as child care or child protective services. Emergency TANF funding is available retroactively for any increases experienced in the last quarter of calendar year 2008. No state may receive emergency contingency funds in excess of 50% of the State Family Assistance Grant (not including any supplemental grants). The Legislative Fiscal Division estimates that Montana will receive approximately \$3 million in increased federal funding for TANF. Once Montana qualifies for the funds based on any or all of the three program categories, the state can spend the money in any manner that is permissible under the TANF block grant. The federal stimulus act caps total expenditures for the Emergency Contingency Fund at \$5 billion, roughly double the amount that the Congressional Budget Office estimates will be used by the states.

The legislation also allows all states to maintain current welfare-to-work participation requirements even if TANF rolls increase.

Tribal TANF

The Emergency Contingency Fund is available for tribes with approved family assistance plans in the same manner as it is available to the states.

Supplemental Nutrition Assistance Program (Food Stamps)

The federal stimulus act also includes additional funding for the food stamps program. \$19 billion of the \$20 billion will be used to fund a 13.6% increase in the maximum food stamp benefit, starting April 2009. This increase will benefit over 80,000 Montana families. It will also provide additional administrative funds to assist in the implementation of the benefits increase and rising caseloads. In addition, the food stamp provisions suspend the current three-month time limit for many unemployed adults without children.

The estimated benefits to Montana from this package are reflected in the table below:¹³

	Estimated Amount
Increase in Food Stamp Benefits	\$57,000,000
Administration	\$700,000
Total	\$57,700,000

The federal stimulus act also includes \$5 million for food distribution to Indian reservations.

Emergency Shelter Grant Programs

The federal stimulus act provides increased funding for the Emergency Shelter Grant program, a program providing grants (based on formula) to states and localities for use in homelessness shelter, prevention, and outreach. Twenty-five percent of the funding goes to the states and the remaining to localities. The additional funding can be used by states and localities to provide rental assistance, housing stabilization services, housing relocation assistance, and moving costs. Montana state and local governments are expected to receive \$3.8 million in additional funding through this program, offering assistance to approximately 7,000 Montana households.¹⁴

Weatherization Assistance Program

The federal stimulus act increases funding for the Weatherization Assistance Program, which assists low-income families in reducing energy bills by weatherizing their homes and increasing energy efficiency. The act increases eligibility for the program to 200% of the federal poverty level and increases the maximum benefit amount from \$3,000 to \$5,000. The Legislative Fiscal Division estimates that local entities in Montana will receive grants totaling over \$27 million for additional weatherization assistance.

Additional Support for Children and Families

Child Care Subsidies

The federal stimulus act includes a total of \$2 billion in extra funding for Child Care Development Block Grants, which assist states in providing child care subsidies for low-income parents who are working or involved in education and training. The Center for Law and Social Policy estimates that Montana will receive \$5,747,006, of which \$475,098 must be directed toward quality improvements, and \$275,144 must be directed for quality improvements for infants and toddlers.¹⁵

Child Support Enforcement Division

The federal stimulus act restores a 2006 cut in federal funding for state child support enforcement efforts beginning October 2008 through September 2010. The Center for Law and Social Policy

¹³ Center on Budget and Policy Priorities, "American Recovery and Reinvestment Act of 2009: State-by-State Estimates of Key Provisions Affecting Low- and Moderate-Income Individuals," February 13, 2009, at <http://www.cbpp.org/1-21-09tax3.htm>.

¹⁴ *Ibid.*

¹⁵ Center for Law and Social Policy, "Impact of American Recovery and Reinvestment Act of 2009 on Child Care and Development Block Grant Funding," February 13, 2009, at http://clasp.org/publications/aara_childcarestatealloc.pdf.

estimates that Montana will receive \$7.9 million in additional funds for child support enforcement activities over the next two years.

Tax Cuts for Working Families (no impact on state budget)

Making Work Pay Credit

The Making Work Pay Credit will provide \$400 in tax relief for every worker who is not claimed as another taxpayer's dependent. Eligibility for the credit is limited to individuals with incomes less than \$100,000 and households with incomes less than \$200,000. The credit will be paid through each worker's paycheck, phased in at the same rate as the Social Security tax. The Center on Budget and Policy Priorities has estimated that 356,000¹⁶ Montanans will benefit from this credit, with a resulting \$142,400,000 flowing into the Montana economy.

Expansion of Earned Income Tax Credit

The Earned Income Tax Credit (EITC) has been expanded in two ways in the federal stimulus act. First, benefit levels for families with 3 or more children will be increased. Previously, these families received the same benefits as families with two children. Second, the EITC will begin phasing out at a higher level of income for married couples with children. This expansion will help an estimated 23,807 Montana households that are currently eligible for the EITC and would add 2,777 more eligible households.¹⁷ The expansion of the federal EITC is estimated to bring \$12.5 million to Montana families across the state.

Expansion of Child Tax Credit

The federal stimulus act expands the Child Tax Credit through two different mechanisms: (1) it lowers the income threshold at which families become eligible for the credit to \$3,000 from approximately \$8,500 in 2008 and \$12,550 in 2009, and (2) it increases the benefit for many families receiving the credit. The Center on Budget and Policy Priorities estimates that over 50,000 children in Montana will benefit from the increase in the child tax credit.

The Montana Budget and Policy Center will update this brief as new information becomes available.

¹⁶ Center on Budget and Policy Priorities, "Tax Aid in Recovery Package would Reach Large Numbers of Workers in Every State," February 13, 2009, at <http://www.cbpp.org/1-21-09tax3.htm>.

¹⁷ Kneebone, Elizabeth. "Economic Recovery and the EITC: Expanding the Earned Income Tax Credit to Benefit Families and Places" The Brookings Institution. February 18, 2009 at http://www.brookings.edu/papers/2009/0129_eitc_kneebone.aspx